

CAP Reform – what will it mean for the uplands of Scotland?

Report of a workshop on CAP reform hosted by Macaulay Institute
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The workshop provided an opportunity to bring practicing farmers/ land managers together with ‘policy makers’ to discuss the potential changes caused by forthcoming CAP reform. Participants were given a number of different scenarios to consider in their respective professional groupings, and the outcomes were discussed in plenary sessions. The following summary outlines the key points that were made and is presented as a progression from the current status quo to possible effects of different levels of reform.

1. Role of agriculture in the uplands.

Two classes of upland areas were identified, peri-urban and remote uplands. Peri-urban uplands within easy reach of urban centres have a diversified economy with significant opportunity for off-farm employment. These areas also have significant and increasing roles as dormitory residences, recreation venues or alternatives to urban living. Conversely in the remote uplands there are significant issues of lack of employment and local services, and the potential for depopulation.

The goal for the uplands is diversifying from food security, through supporting farmers’ incomes (principally measures contained in Pillar I of the CAP), towards a balance between maintaining a prosperous rural economy and the creation of environmental benefits on behalf of the public (increasingly Pillar II CAP measures). It was agreed that the objectives of the support measures within Pillar I and Pillar II should be clearly defined and differentiated. All measures with the principal aim of directly supporting the income of farmers should be contained in Pillar I with all other measures included in Pillar II. The relative cost-effectiveness of Pillar I or Pillar II in delivering public-good benefits was discussed without agreement. It was, however, recognised that the only way to leverage additional funding into the agricultural sector in the long term is through Pillar II.

The prosperity of the rural economy includes agriculture but no longer as the dominant sector, particularly for the peri-urban uplands. Prosperity of the sector is, however, significant since management of landscapes is determined by the decisions of individual land managers. There exists a creative tension between the goals of environmentalists and farmers, and recognising that farmers will remain the main agents of landscape management, both groups will need to work together to achieve their goals.

The significance of safe, high quality food production, achieved without environmental degradation was highlighted, particularly in light of food safety scares (BSE, FMD etc). At the same time, pressure for cheap

food should not create animal welfare issues or environmental damage by importing from sources where standards are minimal. The key role of retailers was recognised but was beyond the scope of the CAP reforms.

The need to achieve multiple benefits requires complex decisions, considering trade-offs across whole systems. The effects of policy change on-farm and up-stream, both within sector and across landscapes, needs to be carefully evaluated. Reform of the CAP presents a significant opportunity to refocus the policy framework to achieve new goals.

2. Decoupling with minimum modulation

(EU modulation (3%) and minimum national modulation (2.2%) in 2005)

Decoupling will mean the conversion of current payments into a single farm payment (SFP). One option for the calculation of SFP is on an area basis, with the total subsidy expenditure in the reference period (2000 – 2002) being divided by the total eligible area with a small national reserve to deal with hardship cases. An area-based system was seen as undesirable as this would have a substantial rapid redistributive effect, principally from East and South to North and West and sectorally from intensive arable to extensive grazing. Substantial redistribution was unacceptable since farm businesses could not adapt within the time frame proposed. The alternative of SFP’s based on historical entitlement was agreed as preferable.

Tradability of SFP entitlement was seen to be administratively complex and having the potential to lead to anomalous cases where large entitlements are transferred to low agricultural value land. SFP needs to be linked in some way to the quality (and therefore agricultural potential) of the land. One option would be an arable/grassland split but this only reduces rather than eliminates the problem since there is such a wide range of arable and grassland qualities.

Whatever the form of decoupling adopted, the importance of the cross-compliance requirements and the codes of Good Agricultural and Environmental Condition (GAEC) were seen as crucial as it was these that would define the acceptable management options for individual farmers. The importance of early and inclusive consultation was emphasised.

3. Alternative futures

Efficiency – within this scenario the expectation was that the mix of enterprises across the uplands would remain basically the same. However there would be the need for

significant reductions in fixed and variable costs (up to 40% was cited). This level of cost reduction will have significant impact on the organisation of systems, particularly for labour used and may see increased use of part-time labour. The continuing availability of skilled labour was a significant concern, with the importance of supporting trainees highlighted.

Within this scenario there is the possibility of increasing specialisation. This was seen as desirable as farmers can focus on what they are good at. A greater freedom in choice and management of enterprises is provided by the SFP. This may lead to an improvement of the efficiency and market orientation of the sector. Examples of vertical and horizontal integration are seen as “the ideal” but difficult to coordinate. In this regard there is the possibility of an important role for funds from the Rural Development Regulation.

Extensification – this option applies particularly to the suckler-beef sector. If changes in the market and subsidy regime mean that the sector is essentially unprofitable then an option exists of reducing stocking rates to the minimum compatible with GAEC and cross compliance. The example considered for Hartwood was an 80% reduction from 250 to 50 sucklers. This would be accompanied by a move to single manning, a more extensive and longer grazing season on unfertilised pastures and a switch to easy calving breeds such as Aberdeen Angus.

This scenario would have significant impacts on the rural economy providing less employment, less demand for farming services (vets, contractors, advisors and materials) and less stock for downstream industries. The maintenance of high quality pastureland would also be problematic with such low stocking densities. Issues of animal welfare would also be raised. It would, however, be significantly less intensive agriculture.

Europeanisation – in this option the extensification route is followed, along with a reduction in the size of enterprise, and assumes that farming becomes a part-time activity for a significant number of farmers. This scenario depends on the ready availability of other sources of employment and therefore the potential exists for the elimination of a significant number of enterprises, particularly in the remote uplands.

4. Increased rates of national modulation

(Up to 10% national modulation considered but potential for higher rates was also suggested)

Modulation was seen as the only mechanism by which the existing system can be directly influenced in the short term. As with the introduction of area-based SFP's, modulation was seen to be destabilising for the sector. It is particularly important that rates of change in modulation be limited because upland agricultural systems have significant lags in their ability to switch between production systems, and have limited capital generation ability to fund reinvestment. While the CAP reforms may well present significant opportunities, these will only become apparent as the detail of the regulations are

finalised and the system beds in. There was disagreement on the appropriate rates of modulation and the rate at which modulation could or should be increased. Rapid increase in the rate of modulation was seen by farmers as undesirable since this could precipitate a move to the Extensification or Europeanisation of systems, if not outright elimination.

5. Spending the modulation funds

Agri-environment measures (such as RSS) were seen as the most likely funding routes in the long term, while recognising the continuing importance of the LFASS. It was strongly argued that agri-environment schemes delivering public-good environmental benefits are the only long-term support mechanism that will be supported by the public and tolerated by GATT global trade agreements.

The uptake of agri-environment is most likely where the environmental benefits can be achieved without substantial impact on the profitability of the enterprise. They are particularly likely to succeed where farm capital investment can be part-funded by agri-environmental sources (e.g. loss of field margins to hedging part-paying for fencing replacement). Conversely a limit on the uptake of agri-environment schemes can be the need for capital investments in order to benefit from scheme payments. There were significantly differing perspectives on the ability of upland systems to generate the investment to attract agri-environment payments.

6. Regulation and enforcement

From both policy and land manager perspective the desire for any CAP reforms to result in simpler systems of administration was agreed. It was, however, noted that blanket prescriptions were frequently less than effective and indeed could be counter-productive. Targeting of resources to ensure positive impacts was seen as desirable given the limit on resources. The potential of Land Management Contracts as vehicles for targeting was agreed. The availability of a range of accredited sources of advice for cross compliance and GAEC was seen as vital.

7. Multiple perspectives

The workshop was seen as helpful in bringing together delegates from agencies, NGO's and land managers. The small-scale, local and focused interaction was seen as desirable as it encouraged constructive dialogue between participants with differing views and hopefully generated learning opportunities for all sides. It was noted that there would have been significantly different perspectives from other geographic areas or sectors and the potential for wider consultation exists. In this case it would be necessary to use local representatives of the agencies and NGO's rather than headquarters staff, to avoid 'consultation fatigue'.

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